

Message Text

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ACTION EUR-12

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TRSE-00 LAB-04 SIL-01 OMB-01 DODE-00 PM-05 H-02
L-03 NSC-05 PA-02 PRS-01 SS-15 USIA-15 /095 W
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R 181528Z AUG 77
FM AMEMBASSY DUBLIN
TO SECSTATE WASHDC 9497
INFO AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY BRUSSELS
AMCONSUL BELFAST

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SUBJECT: MID-SUMMER REVIEW: IRISH ECONOMY

REF: A) STATE 131308, B) 279634 NOVEMBER 1976

SUMMARY: AN UNACCEPTABLY HIGH UNEMPLOYMENT RATE AND CONTINUING
DOUBLE DIGIT INFLATION POSE THE MOST SERIOUS IMMEDIATE ECONOMIC
CHANNENGES TO THE NEW FIANNA FAIL GOVERNMENT. MEASURES ANNOUNCED
DURING FIRST MONTH IN OFFICE HAVE BEEN PRIMARILY OF SHORT-TERM
NATURE AIMED AT MODERATE STIMULATION OF DOMESTIC DEMAND AND
ENCOURAGEMENT OF PRIVATE INVESTMENT WHILE MINIMIZING INFLATIONARY
PRESSURES. CREATION OF NEW MINISTRY OF ECONOMIC PLANNING AND
DEVELOPMENT SHOULD FACILITATE TASK OF MAPPING OUT AND IMPLEMENT-
ING LONGER-RANGE PROGRAM. MID-YEAR PROJECTIONS FOR 1977 FORESEE
REAL GNP GROWTH AT OVER 4 PERCENT, INFLATION AT 14-15 PERCENT
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CURRENT ACCOUNT DEFICIT UP 80 PERCENT TO POUNDS 270 MILLION. WITH
RESPECT TO OUR BILATERAL RELATIONS, GOI REMAINS VERY CONCERNED
ABOUT POTENTIAL EFFECT ON US INVESTMENT IN IRELAND OF SUGGESTED
CHANGES IN US TAX LEGISLATION. STATISTICAL DATA WHICH FOLLOWS
ORGANIZED AS SUGGESTED IN REFTELS. AS DEPARTMENT AWARE,
AVAILABILITY OF TIMELY STATISTICAL DATA VERY LIMITED IN IRELAND.
EMBASSY HOPES TO SUBMIT DATA ON QUARTERLY BASIS, SUPPLEMENTING

PUBLISHED OFFICIAL MATERIAL WHERE NECESSARY WITH LESS FORMAL ESTIMATES OF DEVELOPMENTS. END SUMMARY.

2. OUTPUT AND DEMAND

A) INDUSTRIAL PRODUCTION: MOST RECENT STATISTICS SHOW INCREASE OF 7.9 PERCENT FOR FIRST QUARTER OF 1977 VICE FIRST QUARTER 1976 BUT BARELY TWO PERCENT OVER FOURTH QUARTER 1976. CURRENT ESTIMATES ARE FOR HEALTHY 8 TO 9 PERCENT INCREASE IN 1977, AND SOME ECONOMISTS AND BUSINESS GROUPS BELIEVE AN ANNUAL RATE AS HIGH AS 15 PERCENT MIGHT BE SUSTAINABLE IN NEAR FUTURE IF CONDITIONS ARE FAVORABLE.

B) OFFICIAL GNP DATA IS PUBLISHED ANNUALLY ONLY. OFFICIAL (PRELIMINARY) FIGURES INDICATE REAL GROWTH OF ABOUT 3 PERCENT DURING 1976 (TO POUNDS 4.48 BILLION). GOI SPOKESMEN HAVE RECENTLY ESTIMATED REAL GNP GROWTH OF SLIGHTLY OVER 4 PERCENT FOR 1977; NON-GOVERNMENTAL FORECASTS HAVE RANGED FROM 3.7 TO 5 PERCENT.

C) RETAIL SALES INDEX (SEASONALLY ADJUSTED) FOR FIRST QUARTER SHOWS 18 PERCENT INCREASE IN VALUE BUT ONLY ONE PERCENT INCREASE IN VOLUME OVER FIRST QUARTER 1976. THERE HAVE BEEN SOME SIGNS OF A PICK-UP RECENTLY, BUT NOT OF DRAMATIC NATURE.

3. PRICE INDICES: INFLATION REMAINS ONE OF MOST SERIOUS PROBLEMS FACING GOI; ALTHOUGH RATE DOWN FROM 18 PERCENT OF 1976, CURRENT UNCLASSIFIED

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ESTIMATES PUT EXPECTED INFLATION RATE AT 14-15 PERCENT FOR CURRENT YEAR. THE CONSUMER PRICE INDEX WAS UP 14 PERCENT FOR THE 12 MONTHS TO MAY 1977, AND THE WHOLESALE PRICE INDEX WAS UP 20 PERCENT FOR MARCH 1976 - MARCH 1977.

4. MONEY SUPPLY: MOST RECENT CENTRAL BANK FIGURES PUT INCREASE IN MONEY SUPPLY (M1) AT 18.5 PERCENT FOR MAY 1976 - MAY 1977. GOVERNMENT SEEKS TO HOLD INCREASE IN MONEY SUPPLY TO RATE OF NOMINAL INCOME GROWTH FOR 1977 AND THUS FAR REMAINS CLOSE TO THAT OBJECTIVE. AS OF JUNE 1977 INDICATIVE SHORT TERM INTEREST RATE 9.5 PERCENT (OVERDRAFT); LONGTERM (OVER SEVEN YEARS) 15 PERCENT. (N.B. RATES VARY DEPENDING ON CLASSIFICATION OF BORROWER, THESE REPRESENT MINIMUM). FLEXIBILITY ON MONETARY POLICY LIMITED GIVEN TIE TO BRITISH POUND AND SHARP SENSITIVITY TO UK INTEREST RATES. IN FACT, RECENT REDUCTION IN UK MINIMUM LENDING RATE IS EXPECTED TO RESULT IN RAPID REDUCTION OF SAME MAGNITUDE HERE.

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ALTHOUGH TALK OF BREAKING LINK HAS BEEN A PERENNIAL SPORT, GOI
DECISION-MAKERS SEEM TO BE GIVING SERIOUS CONSIDERATION TO SUCH A
MOVE, AND MAJOR DEPRECIATION OF BRITISH POUND COULD TRIGGER
ACTION.

5. CENTRAL GOVERNMENT: EXPENDITURES FOR JANUARY - JUNE 1977
REACHED POUNDS 936 MILLION; REVENUE POUNDS 851 MILLION, LEAVING
DEFICIT OF POUNDS 85 MILLION. UNOFFICIAL ESTIMATES FOR YEAR
ANTICIPATE DEFICIT OF POUNDS 220 MILLION, 4.2 PERCENT OF FORECAST
GNP - DOWN FROM 4.5 PERCENT IN 1976.

6. LABOR: ALONG WITH INFLATION THE LABOR SITUATION IS ONE OF THE
MOST SERIOUS ECONOMIC PROBLEMS FACING GOI. OFFICIAL STATISTICS
FOR JULY SHOWED 111,000 REGISTERED UNEMPLOYED, ABOUT 10 PERCENT OF
WORK FORCE, AND MANY REGARD REGISTERED FIGURE AS AN UNDERSTATEMENT
OF THE REAL PROBLEM. (FOR EXAMPLE, A HIGH PROPORTION OF THE MORE
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THAN 30,000 HIGH SCHOOL LEAVERS WHO ARE JOINING THE LABOR MARKET
THIS YEAR WILL NOT BE ABLE TO FIND JOBS, BUT WILL NOT REGISTER
BECAUSE THEY ARE NOT ELIGIBLE FOR UNEMPLOYMENT BENEFITS).
MOREOVER, THERE IS LITTLE HOPE FOR A RAPID SOLUTION TO THIS
CRITICAL PROBLEM. CURRENT REVIVAL OF INTEREST IN INVESTMENT

ON THE PART OF THE BUSINESS COMMUNITY WILL PROVE BENEFICIAL, BUT A REDUCTION EVEN TO THE 8 PERCENT RATE OF 1974 WILL REQUIRE A SUSTAINED INDUSTRIAL UPTURN. RAPID WAGE INCREASES OF THE EARLY 70S CONTRIBUTED SIGNIFICANTLY TO IRELAND'S SUPER INFLATION OF MID-70S, AND ACCEPTANCE BY LABOR OF NATIONAL WAGE AGREEMENT EARLY THIS YEAR FOR MODEST INCREASES SHOULD HAVE FAVORABLE IMPACT ON EFFORTS TO EASE INFLATIONARY PRESSURES AND STIMULATE INVESTMENT. OBVIOUSLY, PUTTING ECONOMY BACK ON EVEN KEEL IN GENERAL, AND REDUCTION OF UNEMPLOYMENT IN PARTICULAR, DEPENDS IN SHORT RUN AS MUCH OR MORE ON ECONOMIC RESURGENCE IN IRELAND'S MAJOR TRADE PARTNERS AS IT DOES ON DOMESTIC ECONOMIC POLICIES.

7. TRADE AND PAYMENTS:

A) OFFICIAL (PROVISIONAL) DATE FOR FIRST 6 MONTHS SHOW EXPORTS AT POUNDS 1.12 BILLION, UP 38 PERCENT BY VALUE COMPARED TO JANUARY - JUNE 1976: VOLUME INDEX FOR JANUARY - APRIL SHOWS 15 PERCENT RISE OVER SAME PERIOD OF 1976. IMPORTS REACHED POUNDS 1.54 BILLION, UP 40 PERCENT BY VALUE, 13 PERCENT BY VOLUME FOR THOSE SAME RESPECTIVE PERIODS. TRADE DEFICIT OF POUNDS 420 MILLION FOR FIRST SIX MONTHS WAS 40 PERCENT OVER THAT FOR JANUARY - JUNE 1976. GOI HOPES FOR CONTINUED EXPENSION OF EXPORTS WITH IMPROVED ECONOMIC CONDITIONS IN MAJOR TRADE PARTNERS. INCREASE IN IMPORT DEMAND HAS THUS FAR EXCEEDED EXPECTATIONS. A CURRENT ACCOUNT DEFICIT OF POUNDS 270 MILLION IS ANTICIPATED FOR THE YEAR, AN 80 PERCENT RISE OVER 1976.

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B) FOREIGN EXCHANGE RESERVES DECREASED BY 6 PERCENT TO SDR 1.52 BILLION BETWEEN JANUARY AND JUNE. GOVERNMENT EXTERNAL DEBT OUTSTANDING STOOD AT POUNDS 1 BILLION AS OF JUNE 1977 AND THAT OF STATE SPONSORED BODIES AN ADDITIONAL POUNDS 336 MILLION (ESTIMATES FOR BOTH CATEGORIES USING ADJUSTMENT OF EXCHANGE RATES SINCE EACH LOAN CONTRACTED).

8. COMMENT: RECENTLY ELECTED FIANNA FAIL GOVERNMENT GAVE GREAT EMPHASIS DURING ELECTION CAMPAIGN TO GENERATING RAPID IMPROVEMENT IN ECONOMY. FIANNA FAIL PROGRAM PROMISED TO BOOST DOMESTIC DEMAND AND REDUCE UNEMPLOYMENT THROUGH REDUCTION IN VARIOUS DIRECT AND INDIRECT TAXES, SUBSIDIES TO FIRST TIME HOUSEBUYERS, AND A VARIETY OF IRECT ASSISTANCE PROGRAMS FOR BUSINESS. IN EFFORT TO KEEP INFLATION UNDER CONTROL NEW GOVERNMENT IS KEEPING CLOSE EYE ON GROWTH OF MONEY SUPPLY, AND CAREFULLY SCRUTINIZING REQUESTS FOR PRICE INCREASES. KEY ELEMENT WILL NO DOUBT BE

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GOI' DEGREE OF SUCCESS IN HOLDING WAGE INCREASES TO MODERATE
LEVEL FOR NEXT 18 MONTHS. INFLATION AND UNEMPLOYMENT PROFOUNDLY
CHALLENGE ABILITY AND IMAGINATION OF NEW GOVERNMENT. IN
ADDITION TO THESE ESSENTIALLY SHORT RUN MEASURES, PRIME MINISTER
LYNCH HOPES THAT CREATION OF NEW MINISTRY OF ECONOMIC PLANNING
AND DEVELOPMENT WILL FACILITATE THE
TAKS OF MAPPING OUT AND IMPLEMENTING LONGER RANGE APPROACH.
MOST IMPORTANT ELEMENT IN OUR BILATERAL ECONOMIC RELATIONS FROM
GOI VIEWPOINT IS CONTINUANCE OF US PRIVATE INVESTMENT IN IRELAND.
NEW GOVERNMENT SHARES CONCERN OF PREVIOUS ONE REGARDING
POSSIBILITY THAT NEW US TAX LEGISLATION WILL SIGNIFICANTLY REDUCE
ECONOMIC INCENTIVES TO US FIRMS WISHING TO INVEST HERE. OTHER
CONVERNS INCLUDE FINAL INTERPRETATION IN US OF OUTCOME OF ZENITH
CASE RE VAT. IN MTN, IRISH INTERESTED IN PRESERVATION OF CURRENT
ADVANTAGES UNDER CAP AND IN EXCEPTIONS FOR DEPRESSED INDUSTRIES
(E.G., FOOTWEAR, TEXTILES). A DORMANT ISSUE WHICH HAS POTENTIAL FOR
EVENTUAL RESURRECTION IS THAT OF US COUNTERVAILING DUTY ON
IRISH BEEF. GOI BLUEPRINT TO STIMULATE PRODUCTION AND IMPROVE
TRADE ACCOUNT INCLUDE PLANS FOR STEPPED UP COMMERCIAL PROMOTION
OVERSEAS AND BUY IRISH CAMPAIGN AT HOME. WHILE LATTER MIGHT WORK
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SLIGHTLY IN SHORT RUN AGAINST US COMMERCIAL INTERESTS, IN
LONGER RUN ECONOMIC RESURGENCE AND INCREASING INDEPENDENCE FROM

TRADITIONAL UK DOMINANCE IN IRISH TRADE RELATIONS SHOULD CREATE
NEW SALES OPPORTUNITIES FOR US SUPPLIERS.SHANNON

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Review Withdrawn Fields: n/a
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To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/cba61759-c288-dd11-92da-001cc4696bcc
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